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FISCAL IMPACT STATEMENT

LS 6842

BILL NUMBER: SB 496

NOTE PREPARED: Dec 19, 2003

BILL AMENDED:

SUBJECT: Income Tax Deduction for Dependent Grandchildren.

FIRST AUTHOR: Sen. Sipes

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ GENERAL
☒ DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill allows an individual to claim an income tax deduction for a dependent grandchild.

Effective Date: January 1, 2004 (retroactive).

Explanation of State Expenditures: The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this deduction. These expenses presumably could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities for individual taxpayers who have dependents that are grandchildren. The revenue loss due to this bill could potentially total approximately \$1.82 M in FY 2005, and is estimated to increase in subsequent years by 2.1% annually.

Background: Under current law, a taxpayer may reduce his or her state taxable income by \$1,500 per dependent child. For a taxpayer to claim the exemption, the dependent child must be (1) the taxpayer's son, stepson, daughter, stepdaughter, or foster child, and (2) either be under the age of 19 or a full-time student who is under the age of 24. The bill would extend this exemption to dependent grandchildren.

The number of dependent grandchildren in Indiana during 2000 is estimated to have totaled 33,000. This is based on estimates by the U.S. Census Bureau indicating that 1.8% of children under the age of 18 reside in a household maintained by at least one grandparent where neither parent is present. Since the bill covers

dependent grandchildren through age 23, the estimates assume the same percentages apply to children through the age of 23. Census 2000 counts for Indiana indicate the population under the age of 19 totals about 1.67 M. Therefore, the number of potential dependent grandchildren in the 18-and-under age group is estimated to have totaled about 30,000 in 2000. Census 2000 counts also indicated that the population from 19 to 23 totals about 435,000. The exemption is limited to individuals in this age group who are students. According to Census estimates, about 35.5% of the 19 to 24 age group were enrolled in college in 2000. Therefore, the number of potential dependent grandchildren in this age group is estimated to have totaled almost 2,800 in 2000. Since the expansion of the exemption to dependent grandchildren is effective beginning in tax year 2002, the fiscal impact would begin in FY 2003. Based on the average annual growth of 2.1% in the number of children residing with grandparents since 1970, the potential number of dependent grandchildren in Indiana is estimated to total 35,661 in 2004, with annual growth estimated to be about 2.1%.

Revenue from the AGI Tax on individuals is deposited in the state General Fund (86%) and the Property Tax Replacement Fund (14%). Since the deduction is effective beginning in tax year 2004, the fiscal impact would begin in FY 2005.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the proposed deduction would serve to decrease taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience an indeterminable decrease in revenue from these taxes.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with a local option income tax.

Information Sources: U.S. Census Bureau, Current Population Reports, *Coresident Grandparents and Grandchildren (P23-198)*, May 1999; U.S. Census Bureau, *Profile of General Demographic Characteristics (Indiana): Census 2000*; U.S. Census Bureau, *The Population 14 to 24 Years Old by College Enrollment*, June 1, 2001.

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